

The Case for Gender Lens Investing:

Alitheia IDF Fund



Commissioned on behalf of:

Dutch Good Growth Fund (DGGF) / Investment funds local SME

COLOPHON

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Ministry of Foreign Affairs of the
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INDUSTRY TRENDS IN GENDER LENS INVESTING

There is growing global investor demand to direct investment capital towards enhancing the lives of women and girls while also delivering financial returns.¹ Gender lens investing, a movement that stands on the shoulders of microfinance and socially responsible investing,² capitalizes on the mounting evidence from McKinsey, Criterion Institute, Veris Wealth Partners and others demonstrating the economic value that can be unlocked through empowering women. Gender lens investing is not an asset class in and of itself but rather cuts across asset classes, with USD \$1.3 billion raised by venture capital and private equity funds³ and \$910 million invested in the public markets.⁴ As the field expands, several gender lens investing approaches have emerged as promising strategies to achieve financial returns for investors.

One of the most well-known and widely applied gender lens investing approaches is closing the gap in access to finance for women entrepreneurs. Traditional investors often assume women entrepreneurs manage small, low-growth businesses and thus tend to invest more in men. These investors, who are influenced by social norms and unconscious biases, are missing a tremendous investment opportunity that is being explored by others. Venture capital funds like First Round Capital have found women-led companies outperform their male counterparts by 63%,⁵ while angel networks like Golden Seeds have invested over \$100M in start-up businesses led by women.⁶ In frontier and emerging markets, private equity funds such as SEAF are targeting commercial risk-adjusted returns through investing in women-led businesses.⁷ Goldman Sachs linked over 10,000 women with access to finance and technical assistance through their *10,000 Women*

global initiative in an effort to address the global \$285 billion credit gap for women entrepreneurs.⁸

Another gender lens investing strategy that offers a promising opportunity for investors is mainstreaming gender within company policies and practices to improve gender diversity at the firm, supplier, customer and community levels. Gender diversity has been proven to boost business performance and returns to shareholders, particularly in gender balanced boards and senior leadership teams.⁹ African companies with at least 25% of board positions filled by women achieved on average 20% higher operating margins than the industry average.¹⁰ Through gender mainstreaming, fund managers can identify opportunities to realize financial out-performance such as accessing a larger pipeline for investment, reducing supply chain risks and tapping into new market segments. For instance, the IIX recently launched a \$8 million Women's Livelihood Bond targeting 5.65% returns for investors while empowering over 385,000 women across Southeast Asia through increasing market linkages, access to credit and affordable goods and services.¹¹

In less than two years, gender lens investments under management have increased by close to 500%.¹² At the same time several frameworks have been tested and adopted by investors, such as Criterion's TOOLKIT for Gender Lens Investing and MEDA's Gender Equality Mainstreaming (GEM) Framework. As investor appetite grows, more financial and gender data will become available and demonstrate the efficacy of these innovative approaches of targeting women entrepreneurs and promoting gender diversity to achieve superior financial returns for investors.

GENDER LENS INVESTING PROFILE: ALITHEIA IDF FUND

Alitheia IDF Managers (AIM), a women-owned pan-African fund manager is raising a private equity fund investing with a gender lens in high growth African SMEs to achieve solid financial returns and social impact. Alitheia IDF Fund (AIF), is anchored by the African Development Bank and will invest between \$1 to 3 million in equity and mezzanine capital in growth SMEs based in South and West African countries.

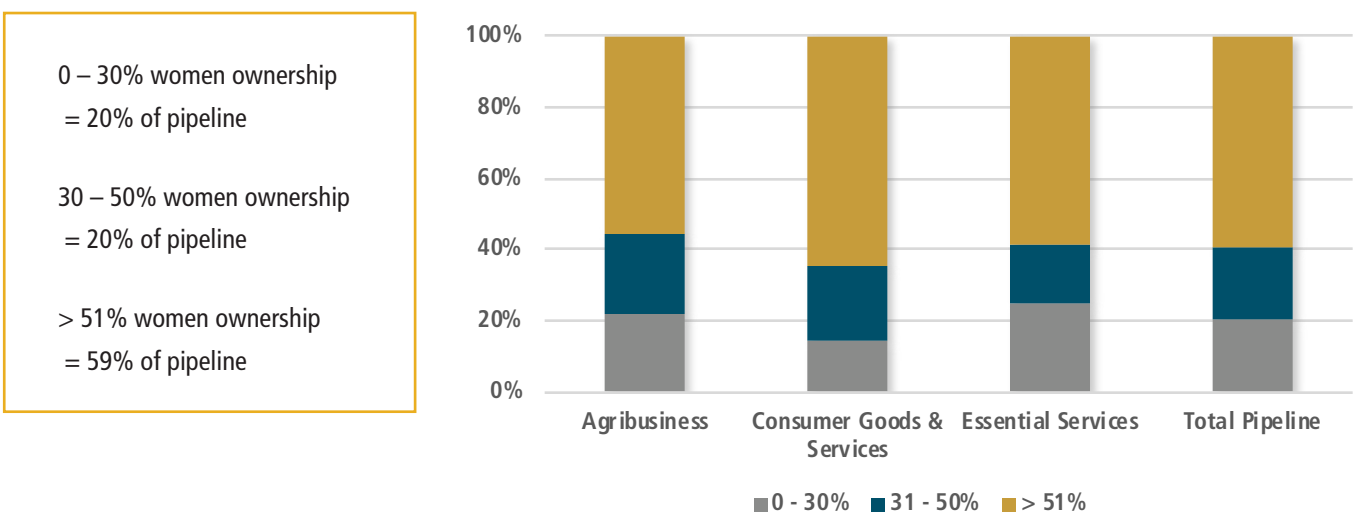
AIM's gender lens is unique because it combines an all-female fund management team with a dual investment focus on women entrepreneurs and mainstreaming gender in portfolio companies. As such, AIF's investment thesis targets growth SMEs, with a focus on women-led businesses while promoting gender diversity across its portfolio. AIF seeks to strengthen gender diversity outcomes by targeting sectors with greater representation of women as employees, customers and suppliers including agribusiness, consumer goods and essential services.

AIM Lessons Learned

In the last year, AIM gained the following lessons learned through implementing its gender lens investing strategy that prioritizes financing women entrepreneurs while enhancing gender diversity portfolio-wide.

AIM has a robust pipeline of investable women-led SMEs in its target geographies and sectors that are poised for growth. With access to an extensive network of vibrant women leaders and entrepreneurs, AIM has learned that traditional investors are 'leaving money on the table' by overlooking women entrepreneurs as viable investment opportunities. As depicted in the graph below, almost 60% of AIF's pipeline are women-led SMEs (defined as 50% ownership by women). With its Principals' established track record of investing in women-led business and financial inclusion, AIM has access to high-performance businesses that are ready to scale.

Levels of Women Ownership in Pipeline



AIM has learned that taking a gender mainstreaming approach can expand an investment pipeline as well as extend impacts for women beyond ownership. Unlike other funds which only invest in women entrepreneurs, AIF targets both women and men-led businesses to grow AIF's investable universe and maximize the potential to empower women as employees, managers, board members, customers and suppliers. For instance, AIF identified pipeline company Afrifash, a made-in-Africa fashion brand led by a male entrepreneur. Since about 70% of the company's employees, managers and suppliers are women, Afrifash offers significant potential to impact women.

Embedding a gender lens across each step of the investment process supports active management, value creation and effective risk monitoring. AIM has learned that applying a gender lens from screening and due diligence through to impact measurement and reporting enables the integration of gender into financial analysis and decision making for better fund performance. To support implementation of its gender lens, AIM applies its Gender Lens Investing Toolkit to assess and support target SMEs to pursue gender diversity value creation strategies that align with business growth plans. The development of AIM's Gender Lens Investing Toolkit was informed by MEDA's GEM Framework, which is designed to achieve gender equitable business growth and impact and was initially tested with four private equity funds in Southeast Asia.

Capturing and valuing gender-based data at both the SME and portfolio level is crucial for AIM. By tracking financial and gender key performance indicators (KPIs) tailored to each SME, AIM can demonstrate how improving gender diversity contributes to business growth and alpha. At the fund level, AIM tracks standard KPIs across SMEs to aggregate impacts and value for women, as well as compare performance across companies. Throughout monitoring and impact measurement, AIM tracks KPIs that 'value' gender instead of simply 'counting' women. For example, beyond measuring the number of women customers accessing an essential service, AIM measures the proportion of revenue growth attributed to essential services targeting women. Valuing gender allows AIM to leverage gender as a driver of financial returns and sustainable impact.

Gender lens investing is not well known in the investing world. AIM Principals are among the thought leaders in this space advocating for more focus on gender diversity as a means of achieving alpha. They are heartened to see more discussion in Africa on this topic. Demonstrating the case through transactions will lead to increased investor appetite in gender lens investing.



APPLYING THE GENDER LENS INVESTING TOOLKIT: PROSPECTIVE COMPANY PROFILE



The following company profile illustrates how AIM applies its gender lens in action. Using its comprehensive Gender Lens Investing Toolkit, AIM integrates a gender lens during the investment screening process and plans to integrate gender in due diligence and subsequent stages of the investment life cycle in order to achieve gender diversity outcomes and SME growth within AIF.

Company: **TEAGYNA**

Location: **South Africa**

Sector: **Agribusiness / Consumer goods**

Leadership: **Woman-led**

One of the promising pipeline opportunities AIM has identified is TEAGYNA, a luxury brand that creates fine harvest teas sourced from African farmers from around the continent. With the rise in global consumer demand for premium and specialty tea, TEAGYNA is poised to capture

significant market share. Through transforming locally sourced inputs into high-value products, TEAGYNA is enhancing the income of tea farmers, the majority of which are women. With access to investment, TEAGYNA could improve cashflow management to better meet increasing customer demand, strengthen relationships with its suppliers to ensure quality product and benefit for women farmers, and launch a novel franchise model and aggressive marketing strategies to drive sales in the global luxury tea market.

Integrating a Gender Lens in Investment Screening

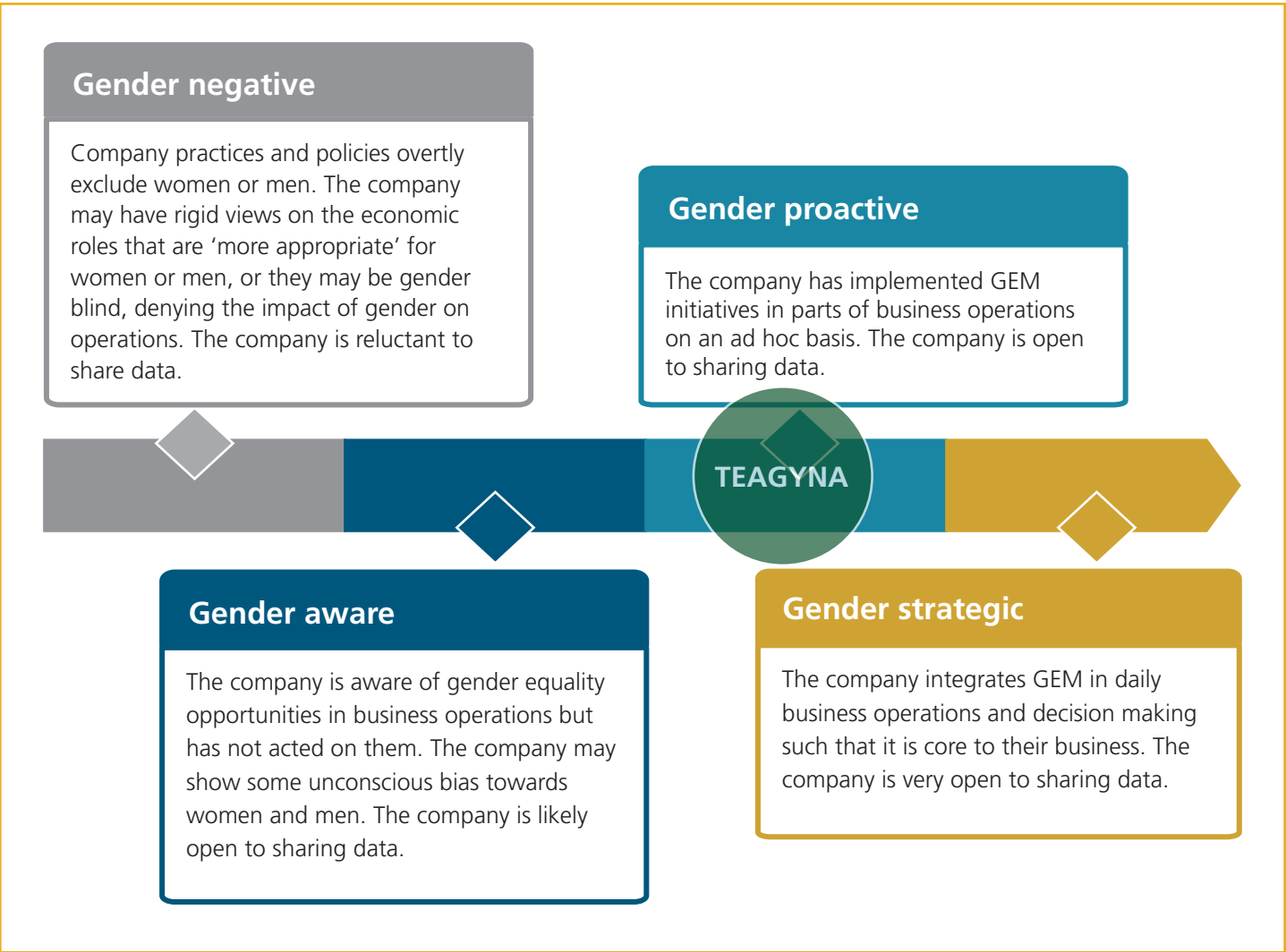
At the screening stage, AIM determined TEAGYNA was a good fit for AIF's strategy by applying its dual focus on women entrepreneurs and promoting gender diversity in management, employees, suppliers and customers. AIM's gender lens investing screening analysis of TEAGYNA is depicted in the table on the next page.

Gender Lens Investing Screening Analysis – TEAGYNA

Gender lens dimension	Score	Analysis
Women in ownership	4/4	<ul style="list-style-type: none"> » Ownership: TEAGYNA is 100% owned and managed by female founder. » Vision: The founder has a clear vision as a trailblazer and role model, showing how African women entrepreneurs can build successful, high growth and impactful businesses. » Intentionality: Through prioritizing women for staff positions and procuring tea from suppliers that employ a high proportion of women labourers, the entrepreneur has demonstrated her intention to engage and empower women throughout the business model.
Gender diverse management teams	3/4	<ul style="list-style-type: none"> » Leadership: The company is solely led by the female founder with access to a gender diverse network of experts. » Potential for transformation: As business scales, entrepreneur could bring on a male senior manager to improve gender balance.
Women employees	4/4	<ul style="list-style-type: none"> » Employee representation: 70% of staff are women. » Quality of employment: Preferential recruitment of women, particularly single mothers. Flexible working hours, no double shifts permitted and transport provided for low-income staff.
Women suppliers	3/4	<ul style="list-style-type: none"> » Supplier representation: The majority of smallholder farmers and labourers who work on tea plantations are women. » Quality of supplier engagement: Premium price is paid to aggregators and tea plantations for high quality tea. » Potential for scale: Linkages to and volumes procured from smallholder farmers will grow significantly as the business expands. Further data is required on number of women and men suppliers, supplier payment terms to women and men labourers and smallholders, whether supplier labour practices are equitable, etc.
Women customers	3/4	<ul style="list-style-type: none"> » Customer representation: 50% of customers are women. » Essential product or service: The company is not offering an essential product that solves a specific need for women. However, it is designed and marketed by women. » Potential for transformation: With access to capital to launch the franchise model, TEAGYNA will target women entrepreneurs as franchisees, facilitating job creation in the value chain.



As highlighted in AIM’s screening analysis, TEAGYNA scores well but has areas for improvement on various gender lens dimensions including in gender diverse teams, suppliers and customers. As a result, TEAGYNA’s overall gender performance is at the stage of ‘Gender proactive,’ which is shown in the spectrum below.



Integrating a Gender Lens in Due Diligence

At the due diligence stage, AIM intends to explore the gender lens dimensions of TEAGYNA in more depth to determine if the company is appropriate for AIF’s investment capital. This gendered due diligence will also help AIM identify value creation strategies that can be pursued over the life of the investment to promote gender diversity and greater business growth. During due diligence, AIM will use its robust Gender Lens Investing Toolkit to analyze the following thematic areas of TEAGYNA’s operations:

Due diligence thematic area	Illustrative questions
Internal Capabilities	<ul style="list-style-type: none"> » Does the company perceive gender diversity to be aligned with the company’s strategic priorities at all levels of the business including in leadership positions? » Does the company have the internal resources to pursue gender diversity strategies now?
Business Strategy	<ul style="list-style-type: none"> » What are the key opportunities women customers, suppliers and employees face in the industry and how does that impact the company’s current and future performance? » What are the top key performance indicators the company uses to track business performance? Does the company measure any gender-specific or gender-disaggregated KPIs related to business operations?
Employees	<ul style="list-style-type: none"> » What is the ratio of the average salary paid to women employees compared to men employees? » Does the company have an established employee feedback system that encourages participation from both women and men employees? How often do women employees use the system as compared to men?
Customers	<ul style="list-style-type: none"> » How would the company implement the franchise model? How would they source franchisees? Where would they launch first? What types of support would be provided to franchisees and would it take into consideration the constraints faced by women entrepreneurs, such as access to capital, management skills and capabilities, etc. » Does the company track and analyze women and men customer data separately? If so, what are the total sales generated from women and men customers by different sales channel (e.g. hotels, spas, supermarkets, food gifting, etc.)?
Suppliers	<ul style="list-style-type: none"> » What is the number of women and men labourers and smallholder farmers engaged in supplying to the company in the last 12 months? » What is the average daily wage paid to women and men labourers? What is the average price/kg paid to women and men smallholder farmers? » Does the company conduct regular on-site audits of supplier operations including examining labour policies and practices with women and men labourers?
Community	<ul style="list-style-type: none"> » Does the company have specific objectives to benefit society? (e.g. community development, employment generation for low-income workers, access to education, etc.). To what extent have women and men contributed to and benefited from company social objectives?

Due diligence thematic area	Illustrative questions
Governance	<ul style="list-style-type: none"> » Is the board working towards achieving a roughly equal number of women and men directors on the board? » For each company policy, does the policy recognize the different needs of women and men (e.g. as employees, suppliers, customers and community members?)? Do women use the policy as much as men?
Environment	<ul style="list-style-type: none"> » Has the company conducted training on environmentally sustainable practices for women and men employees? » Does the company have a strategy to reduce the environmental impacts associated with its products?

Integrating a Gender Lens in Investment Execution

Following due diligence, AIM will analyze the data collected and develop fit-for-purpose value creation strategies to improve TEAGYNA's gender diversity and business performance over the life of the investment.

Potential gender diversity value creation opportunities could include:

1. In order to boost tea yields and quality, engage tea plantation operators to adopt improved labour practices for women and men labourers. Improved labour practices may include agricultural training (e.g. soil and land preparation, conservation agriculture techniques, etc.), fair and equal compensation, longer-term contracts, and worker benefits (e.g. transportation support, security services, health benefits, uniforms, etc).

As part of these enhancements, plantation operators would be supported to install management information systems to better monitor performance of farm operations, if not already established. Ultimately, these upgrades in the supply chain will support TEAGYNA in securing reliable and high quality volumes, while rigorously validating the impact for women smallholder suppliers and labourers.

2. Launch franchise company to manage a global chain of stores retailing TEAGYNA's fine harvest teas and accessories. This new distribution channel would serve to expand TEAGYNA's profit margins, enhance brand awareness and drive sales, while creating quality jobs for women entrepreneurs in the value chain. The company would develop a tailored package to enable franchisees to successfully start operations including a full suite of branding resources and marketing tools and identified third party providers of financial assistance. As the program rolls out, additional supports could be added, such as establishing an informal network for franchisees to connect and exchange ideas or providing ongoing mentoring and coaching to franchisees to build their business acumen and confidence.
3. As TEAGYNA hires additional staff to keep pace with business expansion, the company can develop and implement a plan to improve gender diversity at the leadership and management levels. Skills, capabilities and network gaps that are lacking in the founder can be prioritized in the identification of the next key managerial hire, preferably filled by a man. This strategy would be expected to contribute to improved business performance associated with gender diverse senior management teams.

Integrating a Gender Lens in Post Investment Value Creation

Once gender diversity value creation strategies are selected and the investment opportunity is submitted to the AIF Investment Committee for review and approval, the conditions of the gender diversity strategies are integrated within the investment documents. If the investment is approved, AIM will develop an action plan with TEAGYNA that describes the milestones, responsibilities, budget, risk monitoring and reporting requirements associated with implementing the gender diversity strategies including tracking financial and gender KPIs.

Over the course of the investment, AIM will deliver value to TEAGYNA through supporting the implementation, monitoring, learning and pivoting of strategies so that maximum value for the company and for women stakeholders can be achieved. It is through AIM's active management and application of a gender lens throughout the investment process that financial outperformance and gender outcomes can be achieved, thereby supporting alpha for AIF and its investors.



ENDNOTES

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